

THOMAS COOK (INDIA)

MIDCAPS

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Company Update

BUY

Target Price: Rs 320

Quess likely to be spun-off; stay invested

Thomas Cook's (TCIL) board has approved the proposal of a corporate restructuring exercise that would enable the company to focus on Travel-related businesses and give its shareholders direct exposure to Quess. The contours as well as the timeline of the deal are yet to be disclosed.

Our take: (1) In the scenario that existing shareholders are given Quess shares on pro-rata and no distribution tax is applicable, our estimates on residual business of Travel, forex and vacation ownership imply a 25% upside from CMP; (2) If distribution tax of ~20% is applied, **we recommend existing shareholders stay invested and not monetize Quess** – a steady compounder given immense opportunity landscape in business services tied directly to macro, shift from unorganized to organized, and consolidation of vendor base. Retain **BUY** on TCIL and **Quess**. Our estimates, TP remain unchanged.

CMP : Rs 256
Potential Upside : 25%

MARKET DATA

No. of Shares : 367 mn
Free Float : 32%
Market Cap : Rs 94 bn
52-week High/ Low : Rs 274 / Rs 202
Avg. Daily vol. (6mth) : 413,216 shares
Bloomberg Code : TC IB Equity
Promoters Holding : 68%
FII / DII : 6% / 14%

Exhibit 1: Our scenario analysis/calculations indicating upside from CMP

Particulars	Based on:	Scenario 1 Distribution tax	Scenario 2 w/o Distribution Tax
Marketcap of Quess	Current Market Price	145,440	145,440
Value of TCIL's 49% holding in Quess		71,266	71,266
Post effective distribution tax of 20%	(i)	57,012	71,266
Travel and Forex	12x FY20E EBITDA	32,273	32,273
Vacation Ownership	Sterling Holidays at 1.5.x Book value	13,050	13,050
Residual business valuation	(ii)	45,323	45,323
Effective valuation of TCIL based on our est	(i) + (ii)	102,335	116,589
Marketcap of TCIL	Current Market Price	93,310	93,310
Upside		10%	25%

Source:

Financial summary (Consolidated)

Y/E March	FY17	FY18E	FY19E	FY20E
Sales (Rs mn)	85,880	112,139	136,876	157,119
Adj PAT (Rs mn)	382	2,027	4,048	5,595
Con. EPS* (Rs.)		5.3	9.2	12.5
EPS (Rs.)	1.0	5.5	11.0	15.3
Change YOY (%)	112.2	431.0	99.7	38.2
P/E (x)	245.8	46.3	23.2	16.8
RoE (%)	2.8	12.5	21.0	23.2
RoCE (%)	11.6	14.9	19.3	20.8
EV/EBITDA (x)	29.8	19.3	12.9	10.0

Source: *Consensus broker estimates, Company, Axis Capital

Price performance

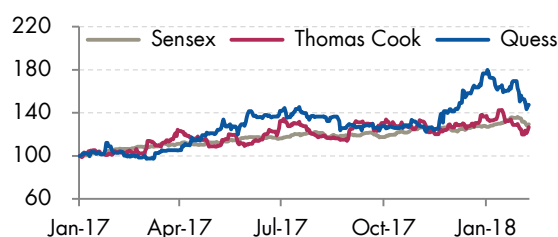


Exhibit 2: SoTP-based TP of Rs 320 for TCIL

SoTP	EV (Rs mn)	Stake	Based on:
Travel and Forex	32,273	100%	12x FY20E EBITDA
Vacation Ownership	13,050	100%	Sterling Holidays at 1.5x Book value
Human Resources	69,025	49.0%	At 25x FY20E EBITDA, 20% holding co. discount
Debt	12,935		As of FY17
Cash	13,760		As of FY17
EV/share	116,212		364 mn shares outstanding
TP	320		
CMP	256		
Upside	25%		

Source: Company, Axis Capital

We believe **Quess is a steady compounder** given the huge opportunity for business services in India

- ◆ Quess has created a formidable platform in the large business services space. Many businesses in India have been deciding that they can be more efficient, effective, and competitive if they buy certain services on the outside that they have hitherto taken care of internally.
- ◆ Given the size and scale of the opportunity, and the fragmented nature of the market, we believe that a large part of Quess' growth will be driven by inorganic roll ups. Quess has demonstrated successful acquisition track record with 4-5 year payback periods, margin accretive with ~20% RoE, and retention of key management personnel. Such deal flow and successful scale ups would not be available to a minority investor and needs to be backed by a company like Quess that has proven its ability to successfully turn around and integrate acquisitions.
- ◆ We believe Quess will continue to drive inorganic growth through tuck-in acquisitions, as part of its roll-up strategy, with the proceeds (~Rs 8.7 bn) of recently concluded IPP. While not currently baked in our numbers, this can potentially translate into EBITDA of ~Rs 10 bn over the next 3 years. We have a **BUY rating on Quess with TP of Rs 1,250 (30x FY20E EPS)**

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	85,880	112,139	136,876	157,119
Other operating income	-	-	-	-
Total operating income	85,880	112,139	136,876	157,119
Cost of goods sold	(33,712)	(40,370)	(49,275)	(56,563)
Gross profit	52,168	71,769	87,600	100,557
Gross margin (%)	61	64	64	64
Total operating expenses	(49,042)	(67,152)	(81,138)	(92,968)
EBITDA	3,126	4,617	6,463	7,589
EBITDA margin (%)	4	4	5	5
Depreciation	(846)	(1,105)	(1,349)	(1,548)
EBIT	2,280	3,512	5,114	6,040
Net interest	(1,309)	(1,812)	(1,742)	(1,672)
Other income	944	1,376	1,722	2,270
Profit before tax	1,915	3,076	5,094	6,638
Total taxation	(1,138)	(634)	(610)	(585)
Tax rate (%)	59	21	12	9
Profit after tax	777	2,442	4,484	6,053
Minorities	(395)	(415)	(435)	(457)
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	382	2,027	4,048	5,595
Adj. PAT margin (%)	0	2	3	4
Net non-recurring items	-	-	-	-
Reported net profit	382	2,027	4,048	5,595

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	367	367	367	367
Reserves & surplus	14,841	16,868	20,917	26,511
Net worth	18,015	20,183	24,379	30,128
Borrowing	12,935	12,435	11,935	11,435
Other non-current liabilities	1,021	1,021	1,021	1,021
Total liabilities	59,823	69,091	79,564	90,359
Gross fixed assets	26,762	26,467	26,416	26,564
Less: Depreciation	(5,536)	(6,641)	(7,990)	(9,539)
Net fixed assets	21,225	19,825	18,425	17,025
Add: Capital WIP	418	418	418	418
Total fixed assets	21,644	20,244	18,844	17,444
Total Investment	2,155	2,155	2,155	2,155
Inventory	75	-	-	-
Debtors	9,938	13,825	16,875	19,371
Cash & bank	13,760	17,217	22,694	29,399
Loans & advances	6,020	7,681	9,375	10,762
Current liabilities	27,853	35,453	42,230	47,776
Net current assets	29,794	38,723	48,944	59,531
Other non-current assets	6,230	7,969	9,621	11,229
Total assets	59,823	69,091	79,564	90,359

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	1,915	3,076	5,094	6,638
Depreciation & Amortisation	(846)	(1,105)	(1,349)	(1,548)
Chg in working capital	175	2,128	2,033	1,664
CF from operations	2,855	7,488	9,608	10,936
Capital expenditure	(1,101)	(1,400)	(1,400)	(1,400)
CF from investing	(2,664)	(3,331)	(3,331)	(3,331)
Equity raised/ (repaid)	67	-	-	-
Debt raised/ (repaid)	2,962	(500)	(500)	(500)
Dividend paid	(166)	(200)	(300)	(400)
CF from financing	1,551	(700)	(800)	(900)
Net chg in cash	1,742	3,457	5,477	6,705

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	1.0	5.5	11.0	15.3
CEPS (Rs)	3.3	8.5	14.7	19.5
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0
GROWTH				
Net sales (%)	40.9	30.6	22.1	14.8
EBITDA (%)	69.5	47.7	40.0	17.4
Adj net profit (%)	138.9	431.0	99.7	38.2
FDEPS (%)	112.2	431.0	99.7	38.2
PERFORMANCE				
RoE (%)	2.8	12.5	21.0	23.2
RoCE (%)	11.6	14.9	19.3	20.8
EFFICIENCY				
Asset turnover (x)	5.7	6.9	9.4	12.2
Sales/ total assets (x)	1.6	1.7	1.8	1.8
Working capital/ sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Receivable days	42.2	45.0	45.0	45.0
Inventory days	0.3	0.0	0.0	0.0
Payable days	53.6	52.1	52.5	52.5
FINANCIAL STABILITY				
Total debt/ equity (x)	0.8	0.7	0.5	0.4
Net debt/ equity (x)	(0.1)	(0.3)	(0.5)	(0.7)
Current ratio (x)	1.1	1.1	1.2	1.2
Interest cover (x)	1.7	1.9	2.9	3.6
VALUATION				
PE (x)	245.8	46.3	23.2	16.8
EV/ EBITDA (x)	29.8	19.3	12.9	10.0
EV/ Net sales (x)	1.1	0.8	0.6	0.5
PB (x)	6.2	5.4	4.4	3.5
Dividend yield (%)	0.0	0.0	0.0	0.0
Free cash flow yield (%)	1.9	6.5	8.7	10.2

Source: Company, Axis Capital

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